

Message Text

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ACTION EA-09

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

AGRE-00 /102 W

-----110638Z 119803 /11

R 110254Z MAR 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 2576

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

US MISSION GENEVA 404

US DEL MTN GENEVA

AMCONSUL HONG KONG

UNCLAS SECTION 1 OF 2 SEOUL 1966

HONG KONG FOR REGFINATT

E.O. 11652: N/A

TAGS: ETRD, EFIN, MTN, GATT, KS

SUBJECT: KOREAN ECONOMY: EXPORT OUTLOOK BRIGHTENS, BUT DOMESTIC
PRICES AND MONETARY EXPANSION ARE DISAPPOINTING

REF: SEOUL 1388

SUMMARY: FEBRUARY DATA ON THE KOREAN ECONOMY PROVIDED FURTHER
EVIDENCE OF SOME UPSWING FROM THE FOURTH QUARTER 1976 LULL.
THIS GOOD NEWS WAS TEMPERED SOMEWHAT BY DISAPPOINTINGPERFOR-
MANCES FOR SEVERAL KEY INDICATORS OF DOMESTIC ECONOMY STABILITY.
END SUMMARY.

1. PROSPECTS FOR ANOTHER ROUND OF EXPORT-LED GROWTH BRIGHTENED
IN FEBRUARY AS EXPORT PERFORMANCE CONTINUED THE FAVORABLE
JANUARY TRENDS WITH TOTALS OF \$632 MILLION FOR KFX EXPORT
SHIPMENTS AND \$755 MILLION FOR EXPORT LETTER-OF-CREDIT (L/C)
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ARRIVALS. THOSE SUMS EQUATE TO IMPRESSIVE SEASONALLY ADJUSTED
FIGURES OF \$747 MILLION AND \$871 MILLION RESPECTIVELY. TOTALS
FOR THE FIRST TWO MONTHS SHOW KFX EXPORTS UP 48 PERCENT AND
EXPORT L/C'S UP 26 PERCENT AS COMPARED TO THE SAME PERIOD A
YEAR AGO. THE BASE FOR THE EXPORT L/C COMPARISON INCLUDES
AN EXCEPTIONALLY STRONG TOTAL FOR FEBRUARY 1976.

2. BASED ON A PARTIAL BREAKOUT OF JANUARY DATA, GAINS IN EXPORT ORDERS FOR MACHINERY AND EQUIPMENT ARE AN IMPORTANT CONTRIBUTOR TO THIS LATEST EXPORT L/C SURGE. JANUARY EXPORT L/C'S FOR TEXTILES, IN CONTRAST, WERE UP ONLY 8 PERCENT OVER A YEAR EARLIER. INDUSTRY SOURCES INDICATE THAT TEXTILE ORDERS ARE LIKELY TO REMAIN RELATIVELY DULL FOR AT LEAST THE FIRST HALF. JANUARY-TO-JANUARY COMPARISONS ON A COUNTRY BREAKOUT SHOW EXPORT ORDERS UP STEEPLY FROM THE MIDDLE EAST WITH STRONG INCREASES FROM SMALL BASES FOR ORDERS FROM SOUTHEAST ASIA, LATIN AMERICA AND AFRICA. THESE GAINS, COMBINED WITH A 51 PERCENT RISE IN EXPORT L/C ARRIVALS FROM THE CRUCIAL U.S. MARKET, WERE ENOUGH TO OFFSET GENERALLY SLUGGISH DEMAND IN THE JAPANESE, EUROPEAN, CANADIAN AND AUSTRALIAN MARKETS.

3. KFX IMPORTS, WHICH EXCLUDE FOREIGN LOAN FINANCED IMPORTS AND CERTAIN OTHER MISCELLANEOUS CATEGORIES, REMAINED SURPRISINGLY LOW WITH A FEBRUARY TOTAL OF \$561 MILLION (OR AN ADJUSTED \$584 MILLION). SEASONALLY ADJUSTED KFX IMPORT LICENSING, MOREOVER, SLIPPED TO \$657 MILLION (\$697 MILLION UNADJUSTED), DOWN FROM THE ROUGHLY \$700 MILLION MONTHLY AVERAGES RECORDED OVER THE LAST SIX TO SEVEN MONTHS. THE KFX, OR PARTIAL, CURRENT ACCOUNT SURPLUS FOR THE FIRST TWO MONTHS REACHED \$188 MILLION AS CONTRASTED WITH A DEFICIT OF \$80 MILLION FOR JANUARY-FEBRUARY 1976. HOWEVER, A FURTHER NET OUTFLOW OF SHORT-TERM CAPITAL, AGAIN CHIEFLY A CONTRACTION IN BANK REFINANCING, HELD GROSS FX RESERVES TO \$2,878 MILLION, DOWN ABOUT \$6 MILLION FROM A MONTH EARLIER AND \$83 MILLION BELOW THE REVISED END-1976 TOTAL OF \$2,961 MILLION.

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4. JANUARY DATA NOW AVAILABLE FOR THE INDUSTRIAL PRODUCTION INDEX (IPI) AND THE OVERALL WARNING INDICATOR (OWI) SHOW THE SEASONALLY ADJUSTED IPI RISING 2.9 PERCENT FOR THE MONTH WHILE THE OWI, A COMPOSITE INDICATOR, REMAINED STEADY AT 1.6. POINTING UP THE LEVELING OFF THAT OCCURRED IN LAST YEAR'S FINAL QUARTER, THE IPI'S FOR BOTH DECEMBER AND JANUARY WERE UP ONLY 20 TO 21 PERCENT OVER THE SAME MONTHS A YEAR EARLIER AS COMPARED TO THE YEAR-TO-YEAR GAINS OF 35 TO 45 PERCENT RECORDED FOR THE MONTHLY IPI'S DURING THE FIRST SEVEN MONTHS OF 1976.

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HONG KONG FOR REFGINATT

5. SOME OF THE FEBRUARY INDICATORS ON DOMESTIC
ECONOMIC STABILITY BROUGHT LESS WELCOME NEWS. WHOLESALE AND
RETAIL PRICES JUMPED 2.6 AND 2.3 PERCENT RESPECTIVELY WITH
HIKES IN THE ADMINISTRATIVELY-CONTROLLED PRICES OF COAL
BRIQUETS, THE PRINCIPAL HOME HEATING FUEL, BEING A MAJOR
CONTRIBUTOR. FOOD PRICES ALSO WERE UP SHARPLY. FEBRUARY SAW
A SHARP 4.7 PERCENT EXPANSION IN MONEY SUPPLY (M-L), RAISING
MONETARY GROWTH FOR THE TWO MONTH PERIOD TO 5.9 PERCENT
(PRELIMINARY). TECHNICALLY, THE EXPANSION IS, TO A LARGE
EXTENT, ACCOUNTED FOR BY A ONE SHOT BORROWING OF 100 BILLION
WON FROM THE BANK OF KOREA BY THE NATIONAL AGRICULTURAL COOPERA-
TIVES FEDERATION (NACF) TO REPAY FERTILIZER INVENTORY OUTLAYS
IT HAS FINANCED FROM ITS OWN RESOURCES. HOWEVER, THE ACTUAL
MONETARY EFFECT OF THE FERTILIZER ACCOUNT TRANSACTION SHOULD
BE SUBSTANTIALLY LESS, SINCE THERE IS A CONTRACTIONARY EFFECT
FROM THE LARGE IMPORT COMPONENT OF THESE FERTILIZER INVENTORIES.
WHAT IS CLEAR IS THAT THIS PROBLEM OF EXCESS FERTILIZER
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PRODUCTION, WHICH WILL BE COMPOUNDED BY THE COMING ON STREAM
OF THE 7TH FERTILIZER COMPLEX THIS YEAR, IS ADDING A FURTHER
COMPLEXITY TO ROKG FISCAL AND MONETARY MANAGEMENT WITH NO
EARLY SOLUTION IN SIGHT.

6. COMMENT: THE JANUARY AND FEBRUARY TRADE PERFORMANCE HAS
BUOYED CONFIDENCE IN THE EXPORT OUTLOOK FOR 1977. THE EVIDENCE
IS TOO LIMITED, HOWEVER, TO JUDGE THE UNDERLYING STRENGTH OF
THIS APPARENT EXPORT REBOUND AND ITS IMPLICATIONS FOR 1977'S

OVERALL ECONOMIC PERFORMANCE. ON THE OTHER SIDE OF THE COIN, THE DISAPPOINTING PRICE AND MONETARY PERFORMANCES MAY ALSO BE TEMPORARY ABERRATIONS, BUT THESE ARE THE AREAS WHERE THE POTENTIAL FOR PROBLEMS DEVELOPING IS GREATEST. THE GOVERNMENT IS STILL WRESTLING WITH THE PROBLEM OF THE DECEMBER OPEC PRICE HIKE IN CRUDE PETROLEUM, AND EVENTUALLY LOCAL PRICE ADJUSTMENTS WILL HAVE TO BE MADE WHICH WILL WORK THEIR WAY THROUGH THE PRICE SYSTEM.

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Message Attributes

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